

This record is a partial extract of the original cable. The full text of the original cable is not available.

160814Z Aug 05

UNCLAS SECTION 01 OF 04 ABUJA 001514

SIPDIS

STATE PASS DOT FOR SAMPLE

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [ELTN](#) [NI](#)

SUBJECT: NIGERIAN RAILWAY CORPORATION SEEKS TO PRIVATIZE
THROUGH 25-YEAR CONCESSIONS, BUT DIFFICULTIES ABOUND

1. (SBU) Begin summary. Economic officers met on July 5 with A.A. Abubakar, managing director of the state-owned Nigeria Railway Corporation (NRC). Abubakar asserted that the state of Nigeria's railways was rather good, and improving. He sketched out the NRC's plan, to be introduced later in 2005, to improve the national rail network through the granting of 25-year concessions to private rail operators. Abubakar, however, glossed over many of the NRC's serious problems, including nearly no new track construction since 1964; critical shortages of locomotives; low numbers of trains, which often also run late and unpredictably; and very large arrears - up to eight months for employees and more than 20 months for retirees. The GON says Nigeria's railway infrastructure has "deteriorated to a point of operational irrelevance." This "total collapse" of the NRC means the railway's concessionization plan will face significant difficulties. End summary.

2. (SBU) Two embassy economic officers and a Lagos Consulate political/economic officer met in Lagos on July 5 with A.A. Abubakar, managing director of the Nigeria Railway Corporation (NRC). The NRC is completely owned by the Government of Nigeria (GON). Abubakar asserted that the state of Nigeria's railways was rather good, and improving. He said 70 percent of Nigeria's rail network is operational. The NRC managing director explained that the non-operational portion lies in the country's northeast and is being rebuilt following heavy flooding in 2000 that washed away tracks and, especially, crucial bridges. According to Abubakar, the NRC finished in June 2005 the first stage of this rehabilitation by replacing four major bridges. He added that the next stage will consist of rebuilding operations between Bauchi and Gombe States, which also are in the northeast. Abubakar said when this second stage is completed, Nigeria's entire rail network can be considered operational. He also noted that if the money is available, the GON will pay the cost of building a new standard-gauge rail system for fast passenger trains. (Comment: The GON's building a standard-gauge, fast-rail system for passengers does not seem likely or realistic, given the NRC's current state. Such a standard-gauge rail line would be incompatible with the vast majority of the NRC's current rail network, which consists of smaller, narrow-gauge tracks. End comment.)

3. (SBU) According to Abubakar, the NRC operates select passenger services during the week. Every Wednesday, a passenger train runs from Port Harcourt to Kano; every Friday a passenger train runs from Lagos to Kano; and a daily passenger train operates from Kaduna to Minna. He said the Lagos metropolitan area currently has four to eight trains operating each morning and each evening to carry commuters, and that freight trains depart Lagos to carry bulk and agricultural products. (Comment: The regular train runs Abubakar mentioned are numerically insignificant for a country of Nigeria's population - approximately 150 million people. An official at the Kaduna Junction Station, one of Nigeria's leading rail junctions, told Abuja economic officer in June that, excluding oil shipments, not more than four trains passed through Kaduna on most days. Also, even if trains complete their scheduled run, they do not necessarily do so on time. The spouse of one U.S. Mission employee in mid-June 2005 boarded a passenger train in Lagos for a scheduled two-and-a-half-day trip to Kano. The train left Lagos almost 30 hours late, without explanation for the delay, and reached Zungeru - slightly more than half the way to Kano - in "Twilight Zone" fashion on the fourth night following the originally scheduled departure from Lagos. End comment.)

4. (U) Abubakar said the GON signed a contract in 1995 with the China Civil Engineering Construction Corporation (CCECC) to rehabilitate Nigeria's railway system and to provide rolling stock. He noted, however, that the Nigerian National Assembly has not funded this contract since 2000, and thus "nothing has been happening in the last five years." Abubakar emphasized that Nigeria's military regime, and not the Obasanjo administration, signed this deal with

the CCECC.

15. (SBU) The NRC managing director said there "hasn't been much investment" by the GON in Nigeria's railroads in the past 20 to 30 years. He contended the NRC's recent success has been in keeping the railroad running at all, even if at a reduced capacity. Abubakar acknowledged, however, that the costs of this reduced rail capacity included overcrowded roads, as well as Nigerian highways damaged by heavy traffic and excessive loads.

The government details its concessionization plan

16. (U) Abubakar noted that President Obasanjo sponsored in 2004 a report on concessioning off railway operations for 25 years. Under this plan, Abubakar said, both the GON and its private-sector partners will provide funds for five years to cover the costs of rail network repairs and upgrades. Private companies will then operate the NRC, and at the end of the concession period, the management of the NRC will revert to the GON.

17. (U) Abubakar explained that the NRC intends to offer three concessions, for three separate rail networks: 1) the "Western Railway, which covers Lagos, Kano, and northern Nigeria via Kano; 2) the "Eastern Railway," which covers Port Harcourt to Maiduguri and the country's north via Kafanchan; and 3) the Itakpe-Ajaokuta-Warri route, which remains under construction and which will connect the Itakpe iron-ore field, the Ajaokuta steel mill, and Aladja port, near Warri. Abubakar said the GON has an unspecified plan to connect the Itakpe-Ajaokuta-Warri line, which is standard gauge, to the narrow-gauge network covering the remainder of Nigeria, and that the GON will bear the cost of this linkage.

18. (SBU) The railroad official noted some of the NRC's difficulties and ascribed these mainly to funding shortfalls. He did not, however, express any expectation that the GON would soon improve its financial support to the NRC. Instead, he expressed his interest in having U.S. companies compete to win an NRC operating concession. Abubakar added there was so far no evidence of concessionaires' interest except in operating the Ajoakuta line. The ISPAT Group, an Indian company overseeing the operations of the Ajaokuta steel mill, expressed this interest.

19. (U) Abubakar said concession operators can import their own locomotives and rolling stock, and that he is confident the GON will not apply import tariffs to these items. He explained that policymakers have not discussed waiving tariffs but that the NRC will recommend the government do so. Said Abubakar, "I'm sure the government will be willing to do this," because Nigeria earlier granted its Chinese partner a waiver for rolling stock it provided.

110. (U) According to Abubakar, the NRC will hold three public conferences, in Lagos, Kaduna, and Port Harcourt, to "sensitize" the Nigerian public to the concession plan and provide details about it. (Begin comment: The first of these conferences, the Bureau of Public Enterprises' (BPE) "Workshop on the Reform, Restructuring, and Concessioning of the Nigerian Railway Corporation," was held in Kaduna on July 11-12, 2005. End comment.)

111. (U) Abubakar noted, however, that the National Assembly still must approve funding in the 2005 budget to cover termination payments required by planned job cuts in preparation for concessionization. According to a July press report, Obasanjo has approved a 50-percent cut in the NRC's employees, from 14,000 to 7,000.

112. (U) The BPE says the concessionization process will begin in August, while press reports note the NRC is supposed to offer these concessions by the fourth quarter of 2005. The BPE also says the NRC will sell some of its non-core assets, or non-operational assets, and use these proceeds to pay NRC liabilities.

113. (SBU) The BPE additionally has publicized a "privatization plan" for the Railway Property Company, Ltd. (RPCL), an NRC subsidiary that manages the railroad's non-operations land and landed property. This prospectus admits the RPCL did not know, as of mid-2005, the number of its employees, the level of the organization's "performance" or its "current status," or its revenue or debt profiles. The privatization plan says the RPCL either will be offered as a concession, or its lands and properties will be sold at market value.

An overview of Nigeria's rail system

14. (U) Nigeria's railroads employ the narrow-gauge system - rails only three feet, six inches wide - as opposed to the "standard gauge," as is found in the United States, of four feet, eight and one-half inches. The disadvantages of narrow-gauge systems are that they must carry lighter cargoes, and that these trains are more likely to derail. Nigeria's rail network includes almost no double track, and a slow average train speed.

15. (U) Nigeria's rail network runs roughly diagonally from the country's southwest, starting at Lagos, to Nguru in the northeast, and from Port Harcourt in the southeast through Kafanchan to Maiduguri, in Nigeria's far northeast. According to the NRC, its track network consists of 4,332 track kilometers. The two north-south lines - Lagos to Kano, and Port Harcourt to Maiduguri - are connected by a 179-km east-west line running from Kaduna to Kafanchan. Apart from the Kafanchan-Maiduguri line, which was built between 1954 and 1964, most of Nigeria's other rail lines were constructed between 1898 and 1927. Few new rail lines have been built in Nigeria since 1964 except for the 277-km line under construction between Itakpe to Warri, via Ajoakuta, which is more than 80 percent complete. Since Nigeria's independence in 1960, the country's successive governments have invested little in the country's rail network.

The NRC has no shortage of problems

16. (SBU) A report prepared by a U.S. consulting company in 2005 for the U.S. Department of Transportation and the U.S. Federal Railroad Administration had the following main conclusions: the NRC's major problem is not a deficient rail network, but rather its lack of usable and reliable locomotives; the railroad's need for additional locomotives and railcars is "critical and immediate"; and the NRC's track infrastructure is in "relatively good condition." This report followed field inspections of the NRC's western main line in December 2003 and its eastern main line in December 2004.

17. (SBU) A press report, however, noted that in March 2004, Nigeria had only 35 operational locomotives. The U.S. DOT study, meanwhile, found that only four of 50 Chinese-supplied locomotives were available for service in December 2004, and that as of March 2005, fewer than 10 percent of the NRC's freight locomotives were available for freight runs.

18. (U) Potential NRC concessionaires would have to contend with significant operational difficulties. The BPE says Nigeria's "railway infrastructure and other assets have deteriorated to a point of operational irrelevance and economic unviability," while this "total collapse has badly affected the movement of both passengers and freight." The NRC notes the current freight environment in which it operates has "virtually collapsed." As a result, the NRC held only a 1.2-percent share of Nigeria's total freight transportation market in 2004.

19. (SBU) The NRC has experienced a significant downturn in its passenger volume. The national railroad carried 15.5 million passengers in 1994. This figure plummeted to roughly 2 million passengers by 2001 - in a nation with, at that time, a population of approximately 130 million. (Begin comment: The 2005 U.S. DOT study concluded that rail passenger service will remain unprofitable for the NRC. End comment.) Complicating the NRC's movement of passengers and freight is the vandalization of its signal communications system through the theft of VHF signal masts' solar panels.

20. (U) GON officials demonstrated marked candor at the public workshop on NRC concessioning held in Kaduna on July 11-12, 2005. Benjamin Dikki, BPE director of transport and communications, termed the NRC "on the brink of collapse" and "unable to maintain any reasonable level of service." BPE Director General Irene Chigbue was even more direct, citing the NRC's actual "collapse." She said, "When you add the pitiful plight of the railways pensioners to this gruesome reality, a more pathetic picture can hardly be contemplated."

21. (SBU) The BPE says a portion of proceeds from the proposed sale of NRC assets will be used to help pay off the corporation's significant arrears in salaries and pensions. For example, NRC employees at the Kaduna Junction Station told Abuja economic officer in June 2005 they had not been paid for eight months. Meanwhile, the Nigerian press reported in March 2005 the NRC owed more than 15,000 retirees a total of roughly 4.5 billion naira (USD 34.35 million) in pension arrears, dating back to December 2002. Another press report, from late July, noted the situation was little changed, with arrears to retirees still exceeding

20 months.

Comment

122. (SBU) In his comments to economic officers, NRC Managing Director A.A. Abubakar downplayed the severity of the railroad's problems. These difficulties, however, could deter all but the hardiest would-be concessionaires, who almost certainly would have to make substantial investments for five years before being permitted to start to recoup their capital. Abubakar demonstrated considerable, and even breezy, confidence about the feasibility of the NRC's planned "privatization" through concessionization. He did not, however, offer a substantive reply to economic officers' questions about the NRC's arrears to employees and retirees. Would-be concessionaires might hesitate to bid on a concession before the NRC does a better job of explaining its plans to pay these salary and pension arrears - and then begins to do so. Otherwise, the NRC is offering potential bidders little more than the opportunity to assume the NRC's burden of inadequate maintenance, completely insufficient investment, and high personnel costs.

123. (SBU) The frankness of BPE officials and of the BPE's prospectus for the NRC is impressive. So is that of the NRC's own prospectus, in acknowledging the railroad's significant operational difficulties. Although it is not an option, companies with the expertise to operate a concession might instead prefer to buy a portion of the NRC's operations - rather than have to work intimately with the GON for the concession's first five years. At this point at least, the GON's demand that concessionaires contribute what likely will be considerable financial resources to rebuilding the NRC probably will discourage bids on concessions.

124. (SBU) While Nigeria's light-industrial sector and agricultural sector are not demonstrating evidence of reviving in the medium term, they will not be able to do so without a functioning rail network. For this network to be effective, it would have to enable these sectors to ship their output, in bulk and at relatively low cost, within the country, and possibly to ports for export. Nigeria's weak rail network has considerable political implications; it aggravates the country's poverty and adds to Nigeria's political divide. This helps keep Nigeria's northern states even poorer and more isolated than the rest of the country.

CAMPBELL